

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 SAL-01 SS-14 STR-08 OMB-01 CEA-02 L-03 PA-03

PRS-01 USIA-12 IO-12 AGR-20 GAC-01 CIAE-00 COME-00

FRB-02 INR-09 NSAE-00 TRSE-00 XMB-07 OPIC-12 LAB-06

SIL-01 RSR-01 NEA-10 /207 W
----- 004743

R 231851 Z MAR 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9979

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

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DEPARTMENT PASS TREASURY, COMMERCE, FRB.

E. O. 11652: N/ A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MARCH 23

BEGIN SUMMARY: WITH OFFICIAL EXCHANGE MARKETS REOPENED,
THE POUND STRENGTHENED DURING THE WEEK TO CLOSE AT
\$2.4750 ON THURSDAY. THE PRICE OF GOLD DROPPED
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BACK TOWARDS THE END OF THE WEEK CLOSING AT \$81.87-1/2 ON THURSDAY. UNEMPLOYMENT IN THE UNITED KINGDOM CONTINUES TO FALL AND IS NOW AT ITS LOWEST LEVEL IN TWO YEARS. RECENT INDICATIONS OF A RECOVERY IN INDUSTRIAL INVESTMENT ARE SUPPORTED BY BANK LENDING FIGURES PUBLISHED BY THE BANK OF ENGLAND COVERING THE THREE MONTHS THROUGH MID- FEBRUARY. INDUSTRIAL PRODUCTION, WHILE DOWN A BIT IN JANUARY, IS STILL IN LINE WITH THE FIVE PER CENT ANNUAL GROWTH TARGET. ESTIMATES RELEASED BY THE CENTRAL STATISTICAL OFFICE INDICATE THAT THE BRITISH ECONOMY WAS GROWING AT A RATE OF 3-4 PER CENT DURING THE SECOND HALF OF 1972 COMPARED TO THE SAME PERIOD IN 1971. ON MARCH 22, THE COUNTER INFLATION BILL, IMPLEMENTING PHASE TWO OF THE GOVERNMENT'S PRICES AND WAGE CONTROLS, RECEIVED THE ROYAL ASSENT. THE FINANCE BILL, WHICH IMPLEMENTS THE BUDGET PROPOSALS, WILL BE PUBLISHED MARCH 23. THE MINIMUM LENDING RATE WAS SET AT 8-1/2 PER CENT ON MARCH 23, DOWN 1/4 OF ONE PERCENT FROM LAST WEEK. END SUMMARY

1. TRADING WAS GENERALLY QUIET THIS WEEK IN THE U. K. FOREIGN EXCHANGE MARKET. THE POUND STRENGTHENED GAINING 105 POINTS FROM LAST THURSDAY'S CLOSE OF \$2.4645. TRADING ON THE GOLD MARKET WAS ALSO RELATIVELY QUIET WITH THE PRICE UNCHANGED AT \$82.75 BETWEEN THURSDAY (MARCH 15) AND TUESDAY (MARCH 20). ON WEDNESDAY AND THURSDAY, GOLD WAS FIXED AT \$81.87-1/2.

2. UNEMPLOYMENT FELL SHARPLY AGAIN IN THE PERIOD TO MID- MARCH. THE NUMBER OF UNEMPLOYED IN BRITAIN ON MARCH 12 WAS 683,045, A DECLINE OF NEARLY 35,000 BELOW THE FEBRUARY TOTAL AND OF 242,000 BELOW THE LEVEL OF A YEAR AGO. SEASONALLY ADJUSTED, THE UNEMPLOYMENT RATE FOR GREAT BRITAIN IS NOW DOWN TO 2.8 PER CENT, COMPARED TO 3.8 PER CENT IN MARCH 1972. AT THE PRESENT RATE OF DECREASE, UNEMPLOYMENT WILL BE DOWN TO THE TREASURY'S INFORMAL DEFINITION OF "FULL EMPLOYMENT" (2-1/4 PER CENT) BY AUTUMN. ENGLAND INDICATES A SHARP INCREASE IN BANK ADVANCES TO MANUFACTURING INDUSTRY, AND A TRAILING OFF IN PERSONAL BORROWING. BORROWING BY MANUFACTURERS UNCLASSIFIED

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BETWEEN MID- NOVEMBER AND MID- FEBRUARY (439 MILLION

POUNDS, S. A.) WAS OVER THREE TIMES GREATER THAN FOR THE PREVIOUS THREE MONTHS. HOWEVER, ONLY A SMALL PORTION OF THIS INCREASE APPEARS TO REPRESENT FIXED INVESTMENT. MUCH MORE IS THOUGHT TO HAVE BEEN USED AS WORKING CAPITAL OR TO PAY TAXES. THERE IS ALSO STRONG SUSPICION THAT SOME OF THE LARGER COMPANIES HAVE BEEN BORROWING ON OVERDRAFT IN ORDER TO REINVEST IN THE MONEY MARKETS.

4. DESPITE A DIP IN PRODUCTION FIGURES IN JANUARY, THE TREND OF U. K. INDUSTRIAL OUTPUT IN RECENT MONTHS HAS CONTINUED TO BE STRONGLY UPWARD. THE OFFICIAL INDEX OF PRODUCTION FELL FROM 132.9 TO 132.2 BETWEEN DECEMBER 1972 AND JANUARY 1973, AND THE INDEX FOR MANUFACTURING INDUSTRY ALONE DROPPED FROM 136.2 TO 134.1 (S. A., 1963 100). COMPARING 3- MONTH PERIODS OF AUGUST- OCTOBER WITH NOVEMBER- JANUARY,

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NEA-10 RSR-01 /195 W

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INDUSTRIAL PRODUCTION ROSE AT AN ANNUAL RATE OF
5.6 PER CENT AND THE MANUFACTURING INDEX WENT UP
BY 7.6 PER CENT.

5. WHILE THE BRITISH ECONOMY WAS GROWING AT 3-4
PER CENT DURING THE SECOND HALF OF 1972 COMPARED TO
THE SAME PERIOD IN 1971, FOR THE ENTIRE YEAR THE
GROWTH RATE WAS MORE MODEST. OUTPUT OF GOODS AND
SERVICES INCREASED BY ONLY 2-1/2 PER CENT DURING
1972, LIFTING THE GROSS DOMESTIC PRODUCT TO
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53,000 MILLION POUNDS. THE LOWER FIGURE FOR THE
YEAR AS A WHOLE IS EXPLAINED BY THE EFFECTS OF A
NUMBER OF INDUSTRIAL DISPUTES, INCLUDING THE COAL
STRIKE, WHICH FELL MAINLY IN THE FIRST HALF OF 1972.
FOR 1972, IT HAS BEEN PARTICULARLY DIFFICULT TO GET
AN ACCURATE FIGURE ON GDP GROWTH, SINCE EXPENDITURE,
INCOME AND OUTPUT ESTIMATES SHOW GREATER DIVERGENCE
THAN USUAL. THE TREASURY SUGGESTS THE GREATER WEIGHT
SHOULD PROBABLY BE ATTACHED TO THE OUTPUT-BASED
ESTIMATE WHICH SHOWED AN INCREASE OF 3-3-1/2 PER
CENT IN GDP FOR 1972 OVER 1971.

6. THE COUNTER INFLATION BILL, IMPLEMENTING PHASE
TWO OF THE GOVERNMENT'S PRICES AND INCOMES CONTROLS,
RECEIVED THE ROYAL ASSENT ON THURSDAY, MARCH 22.
EARLY NEXT WEEK, THE DEPARTMENT OF EMPLOYMENT WILL
FORMALLY ESTABLISH THE PAY BOARD WHOSE CHAIRMAN HAS
ALREADY BEEN NAMED (SIR FRANK FIGGURES). THE PAY
BOARD WILL FORMALLY BEGIN ITS OPERATIONS ON APRIL 1.
THE PRICE COMMISSION WILL BEGIN ITS OPERATIONS ON
APRIL 28. NEITHER THE PAY BOARD NOR THE PRICE
COMMISSION WILL BE ABLE TO OPERATE UNTIL THE
GOVERNMENT'S PAY AND PRICE CODES ARE PUBLISHED AND
AN ORDER BRINGING THEM INTO EFFECT IS LAID BEFORE
PARLIAMENT. THE WHITE PAPER SETTING OUT PRICES AND
PAY CODE WILL BE PUBLISHED ON MONDAY, BUT THE FINAL
VERSION OF THE CODE WILL NOT APPEAR UNTIL THE
PARLIAMENTARY ORDER BRINGING IT INTO FORCE IS LAID

BEFORE PARLIAMENT TOWARDS THE END OF NEXT WEEK.

7. THE DISCOUNT ON STERLING NARROWED ON MONDAY AND TUESDAY, WIDENED ON WEDNESDAY AND NARROWED AGAIN ON THURSDAY.

	3/15	3/22	CHANGE
1 MONTH	0.77	0.72-1/2	DOWN 0.04-1/2
3 MONTHS	2.40	2.07-1/2	DOWN 0.32-1/2
6 MONTHS	4.44-1/2	3.97-1/2	DOWN 0.47

(ALL FIGURES IN CENTS)

8. LOCAL AUTHORITY DEPOSIT RATES WERE UP SLIGHTLY AT ONE MONTH AND THREE MONTHS, BUT UNCHANGED AT SIX MONTHS.

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	3/15	3/22	CHANGE
1 MONTH	10-11/16	10-13/16	UP 1/8
3 MONTHS	10-13/16	10-7/8	UP 1/16
6 MONTHS	10-13/16	10-13/16	UNCHANGED

9. EURO- DOLLAR RATES WERE 8-1/4 PER CENT ALL WEEK AT ONE MONTH, THREE MONTHS AND SIX MONTHS UNTIL THURSDAY, WHEN THEY BEGAN TO FIRM.

	3/15	3/22	CHANGE
1 MONTH	8-5/16	8-5/8	UP 5/8
3 MONTHS	8-3/16	8-5/8	UP 7/16
6 MONTHS	8-3/16	8-1/2	UP 5/16

10. GOLD CLOSED AT \$81.87-1/2 ON THURSDAY, DOWN 87-1/2 CENTS FROM LAST THURSDAY' S CLOSE.

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*** Current Classification *** UNCLASSIFIED

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Decaption Note:
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Disposition Approved on Date:
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Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
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To: BERN
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BRUSSELS
COPENHAGEN
DUBLIN
EC BRUSSELS
EUR

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